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October 2003

DRAFT 2005-2007 OPERATING BUDGET GUIDELINES

Purpose of the Operating and Capital Budget Guidelines

State statute (RCW 28B.80. 330(4)) requires the Higher Education Coordinating Board (HECB) to “review, evaluate and make recommendations” on the operating and capital budget requests of the public colleges and universities. The HECB is also required to adopt and distribute budget guidelines in December of each odd-numbered year.

The Board’s budget recommendations are to be based on the following:

- The role and mission statements of the public institutions;
- The state’s higher education goals, objectives, and priorities as identified in the comprehensive master plan; and
- Guidelines that describe the Board’s fiscal priorities.

Integrating the 2005-2007 Operating Budget Priorities and Guidelines with the Strategic Master Plan

The operating budget guidelines complement the long-term goals and strategies identified in the interim Strategic Master Plan to be adopted by the HECB in December 2003. The final Strategic Master Plan is to be adopted by the HECB in June 2004 after legislative review. The interim and final Strategic Master Plans will identify a vision for higher education in Washington State as well as goals to support this vision and strategies to meet the goals.

The operating budget guidelines are for the institutions to propose budget items that support policies that begin implementing in the 2005-2007 biennium the strategies identified in the interim Strategic Master Plan. These budget items are to be tied to performance indicators, as identified in the interim Strategic Master Plan, so that the outcomes of the budget items can be measured.

Forms and Formats

The HECB will continue to use the basic forms and formats for budget requests the Office of Financial Management (OFM) has prescribed. These forms and formats may change as the Governor's Priorities of Government budget discussion approach is implemented in the 2005-2007 biennium. Regardless of the budget presentation format selected by OFM, the HECB continues to recognize the critical importance of adequately funded carry-forward or maintenance budgets for institutions. It is clear that adequate maintenance budgets are essential to the ongoing vitality and quality of Washington's public colleges and universities.

By using the budget presentations defined by OFM, the HECB avoids any duplication of effort by the public institutions. In the past, this approach has allowed the HECB to focus on those items and issues that are most relevant to the Board's fiscal priorities. Depending on the contents of the Strategic Master Plan, the HECB may have specific questions to address to the institutions regarding selected budget-related items within the plan. .

HECB recommendations are designed to complement the information and requests from the institutions by providing an additional system-wide perspective on the needs of public higher education. As such, HECB review and recommendations will provide additional information that is useful to the Governor and Legislature in budget deliberations.

Timing of Budget Development Activities

HECB's review of institutional budget requests is based on submissions formally presented by the institutions in September of each even-numbered year. Over the next few months, HECB staff will meet and discuss these budget requests with institutions and the requests will be presented and discussed at a Board meeting. Final HECB operating budget recommendations will then be developed based on these discussions and the final elements of the Strategic Master Plan.

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SUMMARY OF DRAFT 2005-2007 CAPITAL BUDGET GUIDELINES

The preliminary draft of the 2005-2007 Capital Budget Guidelines includes the Higher Education Coordinating Board's (HECB) proposed capital spending priorities and methodology to be used in ranking and prioritizing institutions' capital budget requests.

Three legislative actions from the 2003 session provide the general policy context for the preliminary guidelines.

- ESSB 5908 - *"Building Washington's Future Act"* (Gardner-Evans Initiative). This legislation provides additional capital funding (\$750 million) for higher education over three biennia to meet preservation and access needs.
- ESHB 2151 - *An Act Pertaining to the Prioritization of Higher Education Capital Project Requests*. This bill requires the HECB to develop common definitions and a methodology for use by the two-year and four-year institutions in preparing integrated priority lists of proposed capital projects for the 2005-2007 biennium.
- ESHB 2076 - *Strategic Master Plan for Higher Education*. This legislation, in part, emphasizes the relationship of the state's goals for higher education to strategic planning and operating and capital budget resource allocation policies and decisions.

Within this general policy context, the preliminary guidelines propose the following HECB priorities for capital spending:

- Address life/safety and immediate repair needs.
- Reduce the backlog of preservation, renewal, and replacement needs.
- Improve the functionality and efficient use of academic spaces (instructional, research, and support).
- Provide additional capacity at community and technical colleges to alleviate critical space deficiencies and overcrowding.

- Complete major new capacity projects at the comprehensive institutions and continue the development of the branch campuses and off-campus centers for higher education.

As required in ESHB 2151, the preliminary guidelines also include common definitions and a methodology to be used in developing prioritized project lists for the two-year and four-year institutions.

- Community and technical colleges: The guidelines propose that the State Board for Community and Technical Colleges continue to use its existing process for prioritizing projects.
- Four-year institutions: The guidelines include a “criterion framework” for the evaluation and ranking of projects. The criteria included in the framework score projects on the basis of state and institutional needs and priorities, as well as factors measuring the condition, quality, and need for space.

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DRAFT 2005-2007 CAPITAL BUDGET GUIDELINES
(preliminary working draft # 4 - for discussion purposes)

Introduction: Policy Context

The purpose of this document is to articulate the Higher Education Coordinating Board's (HECB) fiscal priorities for higher education capital expenditures in the 2005-2007 biennium and to provide a framework for evaluating and prioritizing capital project requests. These priorities and the evaluation/prioritization framework reflect three significant policy initiatives enacted in the 2003 legislative session concerning higher education capital budgeting:

- Building Washington's Future Act (ESSB 5908)
- Prioritization of Higher Education Capital Project Requests (ESHB 2151)
- Strategic Master Plan for Higher Education (ESHB 2076)

1. Building Washington's Future Act (ESSB 5908)

In response to the Gardner-Evans "Higher Education Leadership Project" (HELP) proposal, the Legislature enacted Engrossed Substitute Senate Bill (ESSB) 5908, the "Building Washington's Future Act." This legislation authorizes the State Finance Committee to issue, subject to legislative appropriation, approximately \$750,000,000 in general obligation bonds over three biennia beginning in 2003-2005 to provide additional capital funding for higher education.

The Legislature's intent in adopting ESSB 5908 was that:

“(the) new source of funding not displace funding levels for the capital and operating budgets of the institutions of higher education. It is instead intended that the new funding will allow the institutions, over the next three biennia, to use the current level of capital funding to provide for many of those urgent preservation, replacement, and maintenance needs that have been deferred. This approach is designed to maintain or improve the current infrastructure of our institutions of higher education, and simultaneously to provide new instruction and research capacity... This new source of funding may also be used for major preservation projects that renovate, replace, or modernize facilities to enhance capacity/access

by maintaining or improving the usefulness of existing space for important instruction and research programs.”¹

2. Integrated Prioritization of Higher Education Capital Project Requests (ESHB 2151)

The 2003 Legislature also enacted Engrossed Substitute House Bill 2151, an act pertaining to the prioritization of higher education capital project requests. This bill recognized that clear capital project expenditure priorities would be needed to support significant future investments in higher education facilities. In adopting ESHB 2151, the Legislature stated that:

“... a capital investment in higher education facilities is needed over the next several biennia to adequately preserve, modernize, and expand the capacity of the state's public two-year and four-year colleges and universities. This investment is needed to responsibly preserve and restore existing facilities and to provide additional space for new students. Further, the legislature finds that capital appropriations will need to respond to each of these areas of need in a planned, balanced, and prioritized manner so that access to a quality system of higher education is ensured.

It is the intent of the legislature that a methodology be developed that will guide capital appropriation decisions by rating and individually ranking, in sequential, priority order, all major capital projects proposed by the two-year and four-year public universities and colleges. Further, it is the intent of the legislature that this rating, ranking, and prioritization of capital needs will reflect the state's higher education policies and goals including the comprehensive master plan for higher education as submitted by the higher education coordinating board and as adopted by the legislature.”²

ESHB 2151 requires the public four-year institutions, beginning in the 2005-2007 biennium, to prepare, in consultation with the Higher Education Coordinating Board and the Council of Presidents (COP), a single prioritized individual ranking of institutional capital projects. ESHB 2151 also requires the State Board for Community and Technical Colleges (SBCTC) to continue to submit a single prioritized ranking of proposed community and technical college capital projects.

Additionally, ESHB 2151 directs the HECB, in consultation with the Office of Financial Management (OFM) and the Joint Legislative Audit and Review Committee (JLARC), to develop common definitions that the public four-year institutions and the State Board for Community and Technical Colleges will use in developing the prioritized project ranking. The legislation directs the HECB to disseminate these definitions as well as the criteria framework, categories, and rating system to be used in developing the ranking as part of the HECB's biennial budget guidelines.

¹ Engrossed Substitute Senate Bill 5908.

² Engrossed Substitute House Bill 2151.

3. Statewide Strategic Master Plan For Higher Education (ESHB 2076)

Engrossed Substitute House Bill 2076, enacted in the 2003 legislative session, re-defines in part the scope of the Board's master plan for higher education and emphasizes the relationship of the state's goals for higher education to strategic planning and resource allocation policies and decisions. As stated in the legislation:

The board shall develop a statewide strategic master plan for higher education that proposes a vision and identifies goals and priorities for the system of higher education in Washington State. The board shall also specify strategies for maintaining and expanding access, affordability, quality, efficiency, and accountability among the various institutions of higher education.

The board shall present the vision, goals, priorities, and strategies in the statewide strategic master plan for higher education in a way that provides guidance for institutions, the governor, and the legislature to make further decisions regarding institution-level plans, policies, legislation, and operating and capital funding for higher education.³

The capital budget guidelines complement the long-term goals and strategies identified in the interim Strategic Master Plan to be adopted by the HECB in December 2003. The final Strategic Master Plan is to be adopted by the HECB in June 2004 after legislative review. The interim and final Strategic Master Plans will identify a vision for higher education in Washington State as well as goals to support this vision and strategies to meet the goals.

HECB Priorities for Capital Investments

Within the above policy context, the Board's fiscal priorities for the 2005-2007 higher education capital budget reflect the overall goal of providing students access to a high-quality education system that has adequate, fully functional space for students, faculty, and staff to pursue teaching, learning, research, and related activities.

The Board's capital budget fiscal priorities for the 2005-2007 biennium are similar to the funding priorities recommended by the Board for the 2003-2005 capital budget. Specifically, the Board believes that highest priority should be given to projects which:

- Are needed for life/safety or immediate repairs to facilities, systems, and infrastructure.

³ Engrossed Substitute House Bill 2076.

- Reduce the backlog of preservation, renewal, and replacement needs of higher education facilities, systems, and infrastructure.
- Improve the functionality and efficient use of academic spaces (instructional, research, support), which are essential to the role and mission of the institution.
- Provide additional capacity at community and technical colleges to alleviate critical space deficiencies and overcrowding.
- Allow for the completion of major new capacity projects at the comprehensive institutions and the continued development of the branch campuses and off-campus centers for higher education.
- Provide capacity for delivering high-demand programs.

These investment priorities are closely aligned to the priorities identified by the House Capital Budget Committee's 2002 Interim Work Group on Higher Education Capital Budget and Facilities.⁴ Specifically, the work group identified the following priorities: (1) reduce the preservation backlog; (2) provide new space to increase access at the community and technical colleges; (3) fund renovations and replacements that are critical to preserving access to current instruction space or to the mission of the institution; and (4) address unique access and mission issues as high priorities for capital appropriations.

In addition to these expenditure priorities, the Board recommends high priority be given to identifying ways to shorten the time required to undertake and complete capital projects. Currently, state procedures can result in major projects taking six years to complete. If this length of time could be shortened, the cost of large projects could be reduced by lower inflation impacts on project budgets.

Project Classifications: Common Definitions

State policymakers have made it clear that they want to better understand higher education's capital project needs. The lack of commonly defined categories of project types has been identified as a principal constraint in understanding the different needs of the different sectors and institutions. Consequently, ESHB 2151 directed the HECB to work with the institutions, the Council of Presidents, the State Board for Community and Technical Colleges, staff of the Joint Legislative Audit and Review Committee, and the Office of Financial Management to develop common definitions for the 2005-2007 capital budget submittal.

⁴ The work group was chaired by Representative McIntire and included Representatives Esser, Kenney, and Cox. Additionally, members of the Senate Capital Budget Subcommittee and Senate Higher Education Committee participated on an ad-hoc basis. Work group participants included representatives of the HECB, the Office of Financial Management, the Council of Presidents, the public four- and two-year institutions, the State Board for Community and Technical Colleges, and staff of the Joint Legislative Audit and Review Committee.

Attachment A provides an association of the existing Office of Financial Management project classifications of ***Preservation*** and ***Program*** with project types and their corresponding descriptions. OFM has adopted these categories and the Board recommends that the four-year institutions and the State Board for Community and Technical Colleges use these OFM categories in their respective project requests.

Project Ranking Criteria Framework

The Board recognizes that the community and technical colleges have in place an existing system and methodology to evaluate, prioritize, and rank capital projects. This system has been developed over many years and is familiar to state policymakers. Accordingly, the Board feels that the SBCTC should continue to use its existing process for prioritizing projects to arrive at the ranking of community and technical college projects as required by ESHB 2151.

The framework for deriving the integrated prioritized list of capital projects for the four-year institutions recognizes that many considerations lead to the determination of the relative priority of a capital project. In addition to assessments of a facility's physical condition or estimates of space need, other considerations influence the choices made about a project's importance. The role and mission of an institution, its long-term strategic plan, and areas of current program emphasis and priority all shape an institution's biennial capital budget request. In this regard, the proposed ranking methodology, while quantitative, is designed to provide the institutions with the opportunity to exercise discretion and judgment in the ranking of projects.

Minor Works Requests

The Board believes that minor works requests addressing emergency/critical repairs and life/safety and code compliance should be prioritized higher than all major projects. All other minor works requests should be prioritized within the overall ranking of all projects, as directed by ESHB 2151. The Board encourages the institutions to use an approach similar to that used by the SBCTC, which differentiates between the most urgent minor works needs (Category A) and less urgent minor works needs (Category B). Both the Category A and B minor works requests are ranked in the overall project list at levels deemed appropriate relative to the nature and priority of other major projects.

Major Projects

For ranking major projects of the four-year institutions, the HECB is proposing a criterion framework that incorporates multiple factors to arrive at project rankings. Underlying this framework is the recognition that one type of project is not always of greater or lesser importance than another type of project, either to a particular institution or to the system as a whole. Rather, each institution needs to address multiple types of needs in a balanced manner.

The criterion framework shown in Attachment B includes the ranking factors discussed below. As shown in Attachment B, suggested weights are provided for each factor. The weights represent the maximum number of “points” that a project can receive on each factor. With the exception of the first factor (Relationship of Project to State Priorities), the institutions will, in consultation with the COP and the HECB, develop the score ranges for each factor as the framework is tested with preliminary project lists.

The criterion framework for the evaluation and ranking of the projects includes the following factors:

- **Relationship of Project to State Priorities**
The extent to which the project has a clear and direct relationship to the HECB priorities for capital investment as described above.
- **Institutional Priority**
The relative importance of the project within an institution’s overall capital budget request. The institutions will develop a common method for scoring this factor. The method will be equitable to institutions that request fewer major projects than other institutions.
- **Sector/Institutional Initiatives: Areas of Emphasis**
This criterion allows each institution to identify programmatic initiatives that are of high importance to the institution and the state, but are not already being offered or provided by the institution. Projects eligible for this criterion should be evaluated on the basis of addressing specific economic and educational needs of Washington.
- **Program Functionality and Quality**
This criterion provides the institutions the opportunity to rank projects on the basis of program/quality-driven considerations. The institutions will develop a common method to score projects within the four categories of quality shown in Attachment B.
- **Physical Condition of Building System or Infrastructure**
This criterion assesses the physical condition of a building or campus infrastructure. For buildings, the JLARC Facility Condition Index should be used as an initial base score. The base score may be adjusted if institutional-level condition assessment data indicates that a building’s condition warrants the adjustment.
- **Space Shortage**
This criterion assesses the extent to which an existing space shortage exists for space types contained in projects which will add capacity. The determination of space shortage should be based on the space and utilization standards contained in the Facility Evaluation and Planning Guide (FEPG) or other national standards. The determination of classroom and class lab space needs should use the HECB’s average weekly station utilization standards of 22 and 16 hours, respectively.

2005-2007 Capital Budget “Sizing” Estimates

Representatives of the universities and colleges have said that having an estimate of the 2005-2007 higher education capital budget would make it easier to prioritize and rank capital projects. The table below provides a preliminary estimate of the possible range of 2005-2007 higher education capital appropriations. As shown, the factor used to create the low and high estimates is higher education’s assumed percentage share of state bonds, excluding bonds authorized through the “Building Washington’s Future Act” (ESSB 5908). These alternative “base” share assumptions lead to an estimated range of \$749 million to \$844 million.⁵

Estimated 2005-2007 Higher Education Capital Appropriation Levels	
Estimated 2005-2007 Total “Base” General Obligation Bond Authorization	\$950 million
Higher Education Share of Base Bonds	
1991-2005 Share (45%)	\$428 million
2003-2005 Share (35%)	\$333 million
Estimated 2005-2007 “Gardner-Evans” Bond Authorization	
Total Three Biennium Plan (ESSB 5908)	\$750 million
2003-2005 Allocation	\$170 million
Difference	\$580 million
2005-2007 Estimate (50%)	\$290 million
All Other Appropriated Funds	\$126 million
Estimated 2005-2007 Higher Education Capital Budget	
High Estimate	\$844 million
Low Estimate	\$749 million

⁵ These estimates do not assume capital budget appropriations for building maintenance. The 2003-2005 capital budget included \$53 million from the Education Construction Fund to offset a corresponding reduction of maintenance funding in the institutions’ operating budgets.

Process for Developing the Four-Year Rankings

The Board recommends that a process similar to the SBCTC process be implemented to develop the project rankings of the four-year institutions' projects. Specifically, the Board recommends the creation of a project evaluation and ranking panel chaired by the Council of Presidents and composed of representatives of the four-year institutions. A HECB staff member would serve as a facilitator and also provide mediation if agreements on the rankings cannot be reached.

Attachment A

Project Classifications

Preservation: <i>Projects that maintain and preserve existing state facilities and assets, and do not significantly change the program use of a facility.</i>		
Line-Item Request Type	Project Types	Description
Minor Works	<ol style="list-style-type: none"> 1. Health, Safety, and Code Requirements 2. Facility Preservation 3. Infrastructure Preservation 	<ol style="list-style-type: none"> 1) Unanticipated needs or critical repairs needed for occupant/building risk reduction or compliance with codes. 2) Minor repair and system replacement projects needed to sustain/return a building or system to current accepted performance.
Major Line-Item Requests: Single project requests costing more than \$5 million	<ol style="list-style-type: none"> 1. Remodel/Renovate 2. Infrastructure 	Renovation of existing facilities and campus infrastructure needed to correct functional deficiencies of building systems or infrastructure.

Program: <i>Projects that achieve a program goal, such as changing or improving an existing space to meet new program requirements or creating a new facility or asset.</i>		
Line-Item Request Type	Project Types	Description
Minor Works	<ol style="list-style-type: none"> 1. Program 	Minor repairs, system replacements and improvements needed for program delivery requirements.
Major Line-Item Requests	<ol style="list-style-type: none"> 1. Remodel/Renovate/Modernize 2. Infrastructure 3. New Facilities/Additions 4. Acquisition Land 5. Acquisition Facilities 	<ol style="list-style-type: none"> 1) Replacement of deteriorated or dysfunctional facilities or infrastructure needed to enhance program delivery. 2) Construction or acquisition of new facilities or property needed to accommodate program demand or improve program delivery.

Attachment B

Preliminary Four-Year Institution Criterion Framework

Prioritization Criterion	Weight	Score
Relationship of Project to State Priorities	Up to 18	
Emergency or life/safety repairs to facilities and systems		18
Reduction of preservation, renewal, replacement backlog		15-17
Modernization of core academic space and/or space for high demand programs		12-14
Completion of capacity projects at the comprehensive institutions and continued development of the branch campuses and off-campus centers		9-11
Institutional Priority	Up to 18	
Sector/Institutional Initiatives: Areas of Emphasis	Up to 10	
Program Quality	Up to 18	
Nonfunctional or nonexistent		
Operational but seriously deficient		
Operational but marginally deficient/inconvenient		
Operational and adequate		
Physical Condition of Building System (per FCI) or Infrastructure	Up to 18	
Marginal functionality (FCI=5)		
Limited functionality (FCI=4)		
Fair (FCI=3)		
Adequate (FCI=2)		
Superior (FCI=1)		
Space or System Capacity Shortage	Up to 18	
Deficiency for existing student enrollment, faculty, staff activity level		
Deficiency for near-term (1-6 years) growth in student enrollment, faculty, staff activity level		
Deficiency for long-term (6-10 years) growth in student enrollment, faculty, staff activity level		

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ENGROSSED SUBSTITUTE HOUSE BILL 2151

**An act relating to prioritizing proposed capital projects
of higher education institutions**

Summary

The intent of the legislation is to develop a single integrated priority list of the four-year institutions' capital project requests beginning in the 2005-2007 biennium, and for the State Board for Community and Technical Colleges (SBCTC) to continue to submit an integrated priority list for the community and technical colleges.

Specific Provisions of ESHB 2151

- Beginning with the 2005-2007 biennial capital budget submittal, the four-year institutions, in consultation with the Council of Presidents (COP) and the Higher Education Coordinating Board (HECB), will prepare a single prioritized ranking of proposed projects.
- The governing boards of the four-year institutions will approve the single prioritized project list and submit it to the Office of Financial Management (OFM) and the HECB at the same time the institutions submit their biennial capital budget requests.
- The State Board for Community and Technical Colleges will continue to submit a single prioritized ranking of projects proposed by the community and technical colleges.
- The HECB, in consultation with the Joint Legislative Audit Review Committee and OFM, will develop common definitions of project types to be used in preparing the prioritized lists of the four-year and community and technical colleges' proposed projects.
- The HECB will disseminate the common definitions, general methodology and criterion framework to be used in developing the prioritized lists in its biennial budget guidelines.

- The HECB will resolve any disputes or disagreements among the four-year institutions concerning the ranking of projects.
- If one or more of the governing boards of the four-year institutions fails to approve the prioritized four-year project list, or if the four-year institutions do not submit the prioritized list with their budget requests, the HECB will prepare the four-year institution's project list.
- Beginning with the 2005-2007 biennial budget submittal, the HECB will submit its capital budget recommendations and the separate two-year and four-year prioritized project lists.